

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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REVIEW OF THE GENERAL PURPOSE COSTING SYSTEM

REPLY COMMENTS OF UNION PACIFIC RAILROAD COMPANY

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Union Pacific Railroad Company (“UP”) is filing this reply to address the comments filed by other parties in *Review of the General Purpose Costing System*, EP 431 (Sub-No. 4).¹ In large part, those comments are consistent with UP’s positions, with regard to both the Board’s specific proposals and the general issue of updating and improving the Uniform Rail Costing System (“URCS”). That is, UP and other parties support the Board’s efforts to update and improve URCS, but they have substantial concerns with many of the specific proposals.

I. Eliminating The Make-Whole Adjustment

All parties that address the issue agree with UP that there is a lack of empirical support for the assumptions that underlie the Board’s proposal to eliminate the make-whole adjustment; namely, that switch-engine minute costs, station clerical costs, and equipment costs for use of railroad-owned cars during switching do not vary with the number of cars in a shipment.²

Several parties go further and argue that the assumptions are incorrect. For example, the Interested Parties agree with UP that the cost involved in switching a block of cars is related to

¹ UP also generally endorses the Reply Comments of the Association of American Railroads.

² Comments of Alliance for Rail Competition *et al.* (“ARC Comments”) at 3-6; Comments of The American Chemistry Council *et al.* (“Interested Parties Comments”) at 5-7; Comments of The Association of American Railroads (“AAR Comments”) at 10-17; Comments of The Western Coal Traffic League (“WCTL Comments”) at 6-11.

the number of cars in the block.³ In addition, the Interested Parties and WCTL both argue that there are efficiencies associated with use of railroad-owned cars during switching of trainload shipments.⁴

Several parties also join UP in raising practical concerns with defining a “shipment.” UP observed that blocks of cars originating or terminating at a common location are typically pulled or spotted at one time, regardless of how they are waybilled.⁵ ARC raises a similar issue when it says that too many shipments appear to be billed as single-car shipments, though it mistakenly blames railroads for billing practices followed by shippers.⁶ The Interested Parties also raise a related concern—that using waybills to identify “shipments” would be inconsistent with actual railroad operations for intermodal traffic.⁷ The AAR and BNSF also raise concerns regarding

³ Interested Parties Comments at 8; *see also* AAR Comments at 16; Comments of BNSF Railway Company (“BNSF Comments”) at 7.

⁴ WCTL Comments at 9; Interested Parties Comments at 9. UP has not performed any studies to determine whether such efficiencies exist. UP observes that the Interested Parties’ argument relies in part on contractual “free time” provisions, *see* Interested Parties Comments, Mulholland V.S. at 24, but such provisions do “little to indicate actual dwell times at particular points,” *Ariz. Elec. Coop. Co. v. BNSF Ry.*, NOR 42113, slip op. at 29 (STB served Nov. 22, 2011).

As explained on opening, UP generally believes that the Board should continue to recognize the relative efficiencies currently recognized by URCS in the absence of evidence that refutes prior studies. At the same time, however, UP urges the Board to consider methods that would allow the continued recognition of these relative efficiencies in a way that mitigates the cross-subsidy issue related to railroad-owned cars discussed in the AAR’s Reply Comments.

⁵ Comments of Union Pacific Railroad (“UP Comments”) at 5.

⁶ ARC Comments at 4-5. ARC asserts that many multi-car shipments are billed as single-car shipments “[d]ue to railroad accounting practices of questionable validity.” *Id.* at 4. However, at least on UP, the *shipper* determines whether to waybill multiple cars moving at the same time from the same origin to the same destination as a series of single cars or as a multi-car shipment.

⁷ Interested Parties Comments at 8. UP is perplexed, however, by the Interested Parties’ suggestion that its waybill records often show multiple intermodal units moving on a single waybill. *See* Interested Parties Comments, Mulholland V.S. at 23. In UP’s 2011 Waybill Sample data, only 26 out of 87,246 intermodal records had more than one unit associated with the record.

the treatment of intermodal traffic.⁸ UP agrees that the treatment of intermodal traffic deserves special attention. As the Board has previously recognized, intermodal traffic has characteristics in common with both single-car and trainload movements. *See Review of the General Purpose Costing System*, 2 S.T.B. 659, 664-65 (1997).

In its comments, UP proposed a method of eliminating the “break points” created by the current method of applying the make-whole adjustment while continuing to recognize the basic cost relationships currently reflected in URCS.⁹ AAR proposed a different method designed to achieve the same objective. If the Board remains determined to eliminate the make-whole adjustment, UP continues to believe that the Board should pursue an approach that would continue to recognize the basic cost relationships currently reflected in URCS, until and unless there are empirical data demonstrating that those relationships have changed.

II. Changing E/L Ratios, I&I Switching Mileage, And Definition Of Trainload

After reviewing comments filed by other parties, UP continues to support use of actual E/L ratios for trainload movements and efforts to update I&I switching mileage. UP also does not object to the proposal to change the definition of a trainload shipment.

E/L Ratios. Several parties urge the Board to continue using the default 2.0 E/L ratio, at least for unit trains that cycle between two points.¹⁰ However, even unit trains may use different routes for loaded and empty movements to take advantage of operational efficiencies associated with directional running. For example, many of UP’s coal unit trains moving to southeastern destinations use a longer route when returning empty to the Powder River Basin. Moreover, UP

⁸ AAR Comments at 14-15; BNSF Comments at 8-10.

⁹ UP Comments at 8-9.

¹⁰ ARC Comments, Fauth V.S. at 14; WCTL Comments at 12-13.

coal customers can and do divert empty trainsets to alternate origins. If the Board eliminates the make-whole adjustment, it must also cease using the default E/L ratio, or else costs associated with empty return movements may go unassigned.¹¹

I&I Switching Mileage. All parties that address the issue agree with UP that the Board should base any change to I&I switching mileage on actual railroad data.¹² UP submitted such data with its comments, which support materially different results than the Board’s proposed 320-mile figure.¹³

Trainload Shipments. Several parties express concern with defining trainload shipments as shipments consisting of 80 or more cars.¹⁴ UP’s comments noted that a significant number of trainload movements involve fewer than 80 cars but observed that some cut-off point must be selected and that 80 cars was a reasonable place to draw the line.¹⁵

III. Modifying The Allocation Of Locomotive Unit Mile Costs

Most parties that address the issue agree with UP that the proposed modifications to the current methods of allocating locomotive unit mile (“LUM”) costs for unit train and non-unit shipments would reduce the accuracy of URCS.

Unit Trains. The Interested Parties explain that the proposal to remove the tonnage factor used to allocate more LUM costs to heavier trains “is predicated on flawed logic” because it fails to recognize that “an 80 car unit train will require less locomotive power than a 135-car

¹¹ UP Comments at 12 & n.16; see also AAR Comments, Baranowski & Fisher V.S. at 18.

¹² ARC Comments, Fauth V.S. at 14; Interested Parties Comments at 9-10.

¹³ UP Comments at 13-14 & App. C.

¹⁴ Comments of Arkansas Electric Cooperative Corporation (“AECC Comments”) at 8-10; ARC Comments, Fauth V.S. at 15-17; Interested Parties Comments at 10.

¹⁵ UP Comments at 14.

train, [and thus] it will incur less LUM costs.”¹⁶ WCTL supports the proposal, but it appears to be more concerned with advancing the interests of its members than improving the accuracy of URCS.¹⁷ WCTL members ship coal in relatively heavy unit trains, so they would benefit from adoption of the proposal. WCTL offers no evidence to support the counterintuitive notion that the number of locomotives used to power a train is unrelated to train weight. By contrast, in UP’s comments, UP’s Superintendent of Locomotive Management verified that train tonnage drives UP’s assignment of locomotives to trains.¹⁸

Non-Unit Trains. As the Interested Parties and other parties explain, allocating LUM costs for non-unit train shipments as a share of an 80-car train would not help produce a smooth cost function, contrary to the Board’s expectations.¹⁹ No party supports abandoning the current method of allocating LUM costs for single-car and multi-car shipments on the basis of relative shipment weight.

IV. Broader Issues Associated With Improvements To URCS

UP encourages the Board to move forward with efforts to update and improve URCS, but changes to URCS must be supported by empirical evidence. UP’s interest is straightforward—to make URCS costing more accurate for traffic of all types. As a practical matter, UP cannot possibly predict whether it would be better off by having more costs allocated to some types of traffic than others. UP is potentially subject to rate challenges from shippers using single-car, multi-car, and trainload service. Moreover, in stand-alone cost cases, URCS costs assigned to cross-over traffic of all types affects ATC calculations and the application of MMM, and the

¹⁶ Interested Parties Comments at 10; *see also* AAR Comments at 18-19; BNSF Comments at 14.

¹⁷ WCTL Comments at 14.

¹⁸ UP Comments at 15; *see also* AAR Comments at 17-19; BNSF Comments at 14.

¹⁹ Interested Parties Comments, Mulholland V.S. at 27-28; *see also* AAR Comments at 24.

precise impact depends on the stand-alone railroad's design in each case. URCS costs of all types of traffic in the Costed Waybill Sample also play a critical role in developing benchmarks used in Three Benchmark cases, including the RSAM benchmark used in the new qualitative market dominance test. Accordingly, UP wants URCS to generate results that are consistent with real-world railroad costs and operations, so that application of URCS in particular cases does not produce outcomes that are inconsistent with efforts to manage the railroad efficiently while meeting customer needs.

For the same reasons, UP continues to urge the Board to consider changes to URCS to better capture the costs of transporting hazardous materials, including the costs of extra handling and Positive Train Control ("PTC"). The Board took a step in the right direction in Ex Parte No. 706. However, it still needs to address how PTC costs and other costs of transporting hazardous materials can be more accurately assigned to movements giving rise to those costs. The Board acknowledged this issue more than four-and-a-half years ago in Ex Parte No. 681. This is not just a railroad concern, as AECC's comments show.²⁰ In fact, most shippers would benefit from the more accurate assignment of these costs. The Board's efforts to update and improve URCS should be focused on addressing this widely recognized issue, rather than on eliminating a quirk in URCS costing associated with the make-whole adjustment.

²⁰ AECC Comments at 13. However, AECC's other comments reflect misunderstandings of URCS, as explained in AAR's Reply Comments.

Respectfully submitted,

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